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SCOTTSDALE CITY COUNCIL

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**RICO IMPREST ACCOUNT
OVERSIGHT AND CONTROL
PROGRESS**

Since our 1991 RICO report, the Scottsdale Police Department has addressed most of the previous audit issues effectively.

**Report No. 9105.1
October 1995**

AuditBrief

**RICO Imprest Account Oversight
and Control Progress
Audit Report No. 9105.1
October 1995**

RICO Funds Comply With Requirements-- Scottsdale Police Department Implements Better Controls

The City Auditor assessed Scottsdale Police Department's administration of the Racketeering Influenced Corrupt Organizations (RICO) program in an August 1991 report. This summer's follow-up audit found that the Department and its Special Investigations Section have strengthened controls over the program and associated imprest accounts. Changes in Arizona statutes have led to added RICO oversight, and to timely posting of interest to seized funds. The Department and the auditors will work together to meet new requirements for an annual RICO audit, a new federal guideline.

Rico Funds Enhance Local Enforcement

Federal and state RICO statutes allow law enforcement agencies to seize and retain a criminal offender's property if it was gained through illegal activities which can be generally characterized as racketeering. Between July 1, 1994, and June 30, 1995, the City received over \$236,000 from RICO seizures. Stringent reporting requirements and spending restrictions are imposed on RICO programs. Failure to comply can result in the Department's losing RICO revenue, which can be used to enhance local enforcement.

Currently, the City's RICO funds are deposited with the County Attorney's Office. Acting as the fund administrator, the County Attorney scrutinizes the appropriateness of the intended use when the Department requests RICO distributions. Within the Department, reconciliations, cash counts, budgets, written policy and procedures, and other controls work to ensure compliance.

Improvements recommended to the Department include consistent and complete documentation of all reviews and reconciliations. Auditors also suggested that control procedures should be documented in the unit's operations manual. A better safe was suggested for cash holding, because adequate controls advise that safe combinations should be changed periodically. The Department agreed with all the recommendations.

For More Information...

Detailed Report: *RICO Imprest Account Oversight and Control Progress*, Report No. 9105.1, October 1995

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This AuditBrief summarizes information contained in a detailed report, which includes agency responses.

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RICO Imprest Account Oversight and Control Progress Action Plan

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1.	X		X		<p>The SOD Commander should:</p> <ul style="list-style-type: none"> a. track all RICO checks that are delivered to the Police Department, along with the date received, and match them to documentation necessary to verify that they are appropriately deposited on a timely basis. Documentation of the verifications should be retained to evidence compliance with federal guidelines, b. periodically (e.g., quarterly, bi-annually) reconcile imprest bank statements to ensure that he obtains independent insight into account activity and balances, c. periodically (e.g., quarterly, bi-annually) perform unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money, to ensure that he obtains independent insight into account activity and balances. <p>The Police Budget Analyst should take steps to formally document her verification of the proper recording of RICO expenditures. The documentation should evidence whether or not any exceptions were noted and corrective actions taken, if needed.</p>
	X			X	
	X			X	
2.	X		X		

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
3.	X		X		<p>The RICO Administrator should:</p> <ul style="list-style-type: none"> a. contact the Department of Justice to determine action necessary to comply with the audit requirement in the federal guidelines, b. obtain the most recent version of the federal guidelines to identify any new requirements. He should then take steps to achieve compliance with the guidelines, c. ensure that he receives and retains all DAG 71's originating from the Police Department or from task forces on which the Police Department has assigned personnel.
4.	X		X		<p>The SIS Commander should:</p> <ul style="list-style-type: none"> a. formally document his reconciliations of imprest checking accounts by initialing and dating the related bank statements, b. consistently document his review of unit expense vouchers to evidence his review and indicate his approval, c. require and verify that unit supervisors deposit cash immediately upon collection from unit members, d. consult with the Narcotics Unit supervisor and take steps to formally document Buy Fund procedures in the SIS Operations Orders manual. Documented procedures should address control techniques, the frequency with which they are to be performed, and document trails that are to be generated. e. acquire a Buy Fund safe on which the combination can be periodically changed and, upon acquisition, implement a policy of changing the safe combination on a regular basis (e.g., annually).

EXECUTIVE SUMMARY

October 4, 1995

To the Most Honorable Herbert R. Drinkwater, Mayor
and the Members of the Scottsdale City Council:

In August 1991, we issued "Scottsdale Police Department Imprest Accounts and RICO Program Compliance And Financial Management Practices" (Report No. 9105). The report presented recommendations for strengthening internal controls related to the Scottsdale Police Department's financial management of the Racketeering Influenced Corrupt Organizations (RICO) program and imprest checking accounts. Recommendations also addressed controls necessary to assure compliance with applicable RICO statutes regarding proper use of the monies.

Since 1991, the Scottsdale Police Department has taken steps to address most of the previously identified issues. Controls have been established or strengthened and changes in Arizona statutes have led to additional oversight of RICO monies by the County Attorney's Office. These statutory changes also require that RICO monies held by the state or county for the benefit of local agencies, accrue interest for the benefit of the local agencies. These changes, to a large extent, mitigate two of the major recommendations from our first report.

Although the internal control environments for both the RICO program and the imprest accounts have improved, our follow-up audit work indicates that additional refinements can be made. We found instances where personnel indicate that they are practicing what we consider to be adequate control techniques. However, documentation of process implementation and related results is needed to properly evidence and track performance. Some additional oversight is also needed to establish independent review of imprest activity.

Federal RICO guidelines were revised in March of 1994 and the Police Department's RICO Administrator is now addressing the new reporting requirements. Under the new guidelines, the Police Department will be required to have an annual audit of the RICO program. Our office and the RICO Administrator will work together

to respond to this requirement. Recommendations in this audit will help document compliance with the revised guidelines.

Presented in Appendix A is the "Status of Management Actions to Strengthen RICO and Imprest Account Oversight and Control" which discusses actions taken on recommendations made in our 1991 report. Management's response to recommendations identified during the current follow-up are presented in Appendix B. Discussion of audit objectives, scope and method is presented in Appendix C.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III Scottsdale Revised Code §2-117 *et seq*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus we currently do not comply with the standards' three-year peer review cycle requirement.

Respectfully submitted,



Cheryl L. Barcala, CIA/CPA/CFE
City Auditor

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BACKGROUND

Both the RICO program and the imprest accounts are administered by the Special Investigations Section (SIS) of the Police Department. Within this report we will refer to the Asset Forfeiture Detective within SIS as the "Administrator" because he acts as control point for the RICO program. The control point for the imprest accounts is the SIS Commander. The SIS Commander and members of his section were very cooperative and provided all necessary assistance in facilitating our review.

RICO Defined Federal and state RICO statutes allow law enforcement agencies to seize and retain a criminal offender's property if it was gained through illegal activities which can be generally characterized as racketeering. Asset forfeiture is obtained through civil action separate from related criminal actions. Between July 1, 1994, and June 30, 1995, the City received over \$236,000 from RICO seizures.

RICO REVENUES

	<u>Fiscal Year Ended</u>	
	<u>6/30/94</u>	<u>6/30/95</u>
Federal	\$187,186	\$137,060
State & Local	<u>165,257</u>	<u>99,514</u>
Total	<u>\$352,443</u>	<u>\$236,574</u>

SOURCE: Audit Analysis

Civil RICO actions can be prosecuted in either a federal, state, county, or city venue depending upon the parties involved and the prosecution resources available. Prosecution venue ultimately determines the classification of the forfeited assets. Federally prosecuted cases result in federal RICO forfeitures while state, county, or city prosecuted cases result in state and local RICO forfeitures. The distinction between federal RICO and state and local RICO is necessary in order to comply with applicable reporting requirements and spending restrictions. In general, the use of RICO monies is restricted to law enforcement purposes, but the monies cannot be used to replace or supplant the resources of the recipient agency.

The RICO Administrator is responsible for identifying and satisfying RICO restrictions and requirements. As such, the Administrator's primary duties include tracking the status of RICO cases, depositing related checks, recording and tracking RICO transactions, reconciling account balances and generating required reports to summarize RICO activity. A process for reviewing proposed RICO expenditures for appropriateness has been established within the Police Department to assure compliance with applicable restrictions. Arizona statutes require that an agency's RICO monies be held either in the anti-racketeering revolving fund administered by the State Attorney General or in the one administered by the County Attorney. This requirement adds another layer of review for the City's RICO activity.

Imprest Defined

Because of the nature of certain undercover police activities, it is not always practical to follow standard City purchasing procedures to pay for related undercover expenses. Instead, the Department uses an imprest system to make cash available to SIS undercover officers so that they can more effectively perform their duties and avoid compromising their investigations. The imprest system is a method of maintaining simplicity of operation over routine expenditures, while adhering to prudent disbursement rules and controls.

The SIS Commander is responsible for day-to-day oversight of the two imprest checking accounts. One of the accounts is used to pay for administrative costs related to undercover operations. Relatively few transactions occur within this account. The second checking account is referred to as the Special Enforcement Account (SEA). It is used to provide cash advances to members of SIS' Narcotics, Special Assignment, and Intelligence Units. The cash advances are provided on a monthly basis to unit personnel for use in their investigative fieldwork.

SEA is also used to provide money for the Narcotics Unit's Buy Fund. These monies are not distributed to each unit member. Instead, they are maintained in a safe by the unit supervisor who is responsible for documenting fund use. Buy money is provided to detectives, on an as-needed basis, for use in investigations as either payment to informants or for use in undercover drug buys.

RICO OVERSIGHT HAS IMPROVED

Several improvements have taken place in the RICO environment since our 1991 audit. One of the improvements is the statutory requirement that RICO monies be deposited in a fund administered by either the county or the state and that the related monies accrue interest. This requirement adds an additional layer of RICO oversight. Another improvement is the Administrator's establishment of tracking and review processes that improve the City's ability to comply with federal requirements for recording and reporting RICO activity. Additionally, City controls have been strengthened to assure compliance with RICO spending restrictions and to assure RICO expenditures are properly recorded. Reconciliations and verifications are performed, but need to be formally documented for these controls to be more effective. Overall, we believe these improvements aid the City in achieving a more effective control environment for the RICO program.

Outside Administration Aids Oversight

The Arizona statutory requirement that an agency's RICO monies be held in a fund administered by either the County Attorney's Office or the State Attorney General's Office adds an external oversight function that acts as a final control in the maintenance and expenditure of RICO monies. Currently, the City's RICO monies are deposited with the County Attorney's Office. Acting as the fund administrator, the County Attorney tracks the monies in two separate accounts. One account is for federal RICO and the other is for state and local RICO. When local law enforcement agencies request distributions, the fund administrator scrutinizes the appropriateness of the intended use. Discussed later, the City also has controls in place to verify that proposed RICO expenditures comply with applicable spending restrictions.

In conjunction with the above-mentioned requirement, Arizona statutes require that the City provide a quarterly report to the fund administrator, outlining the sources of all RICO monies and all related expenditures. Failure to comply with this requirement can result in the suspension of RICO spending for the violating agency. We found that the City has fully complied with this provision.

Interest Now Accrues To RICO Monies

In the past, RICO monies held by outside agencies (i.e., the State Attorney General's Office) did not accrue interest for the benefit of the recipient law enforcement agency. As a result, money was lost if the funds were not immediately obtained and deposited into City

accounts. Current Arizona statutes require that RICO monies administered by either the County Attorney's Office or the State Attorney General's Office shall accrue interest for the benefit of the agency or agencies responsible for the seizure or forfeiture to the extent of their contribution. As part of the fund, the interest is then subject to the same spending restrictions applicable to RICO monies.

Our review of County Attorney reports summarizing activity for the Police Department's RICO accounts demonstrates that interest is posted to the accounts on a monthly basis. We did not verify the accuracy of the interest calculations. We did, however, perform a cursory review to estimate the interest rate paid to determine its reasonableness. We found no exceptions related to the interest paid.

Tracking And Review Processes Established

Federal guidelines require that local law enforcement agencies which participate in the RICO program must implement standard accounting procedures and internal controls to track RICO monies and tangible property. To more effectively and efficiently carry out his responsibilities, the Administrator has developed spreadsheet schedules designed to track various RICO activity and to aid in complying with requirements.

For example, we observed that the Administrator tracks pending RICO forfeiture actions on spreadsheet software to facilitate revisions and updates to the information. In addition we observed that the Administrator also maintains records of the location of assets already forfeited to the Police Department and those which are pending ultimate resolution regarding forfeiture.

Also maintained on spreadsheet software is a record of balances and activity for federal RICO and for state and local RICO. The Administrator uses this information to reconcile to the County Attorney's record of City RICO monies in their possession. On a monthly basis, the County Attorney's Office sends a statement of account activity with beginning and ending balances for both the federal RICO account and the state and local RICO account. Using his own record of activity and balances, the Administrator reconciles his information with that on the county's monthly report. This process serves as an effective control in identifying any potential discrepancies in RICO fund balances between the Police Department's records and those of the County Attorney's Office.

Our review of the Administrator's records for fiscal year 1995 indicated that he is performing the reconciliations as stated. Further, we obtained copies of the monthly RICO statements from the County Attorney's Office to independently perform the reconciliation. Our audit work indicates that for the 1995 fiscal year, the Administrator's records of RICO account activity and balances reconciled to the records of activity and balances we obtained from the county.

**Controls Assure Expenditures
Are Appropriate**

Internal controls, designed to assure compliance with applicable RICO spending restrictions, have been established within the City. Federal RICO guidelines outline permissible uses of federal RICO monies. State and local RICO statutes have similar restrictions. In general, the guidelines limit RICO spending to law enforcement uses. In addition, RICO monies cannot be used to replace or supplant a law enforcement agency's budget. The federal guidelines provide for both civil and criminal sanctions in the event that a state or local law enforcement agency does not comply with the guidelines.

Controls within the Police Department to assure compliance with RICO spending restrictions start with the budget process. Proposed expenditures are developed with the assistance of the Administrator who provides insight into available monies. A listing of the proposed expenditures is then forwarded to the Police Budget Analyst who reviews them for adequacy of the request, trends, and compliance with applicable spending restrictions. From there, the proposed expenditures are sent to the Police Legal Advisor who also determines whether they comply with spending restrictions. At that point the proposed expenditures are forwarded through the normal chain of command for proper authorizations. During the year, if need arises for unbudgeted expenditures from RICO funds, the proposed expenditures undergo similar scrutiny for compliance with applicable restrictions. A specific form, requiring the signatures of the Police Budget Analyst and the Police Legal Advisor, is used for each such request.

The Police Budget Analyst said that she performs a quarterly review of RICO budget and actual expenditures and follows-up on variances when necessary. She also reconciles RICO expenditures, as tracked within SIS on a software spreadsheet, with the City's accounting records in order to verify that RICO expenditures were properly recorded to the correct accounts. This control technique is necessary for verification that transactions are appropriately recorded.

We reviewed Fiscal Year 1995 RICO expenditures and found that the expenditures appear to have undergone the budget control process as stated. All expenditures appear to have been for law enforcement purposes, the general restriction on RICO fund expenditures. We believe that RICO expenditures are properly controlled and reviewed to ensure that they comply with established criteria. However, the Budget Analyst indicated that once her review is complete, she does not generate or retain any evidence of the reconciliation. In order for this control to be most effective, it is important that the reconciliation be formally documented and retained. Such a document trail facilitates the identification and correction of any discrepancies.

OVERSIGHT CAN BE REFINED

Although the City complies with the significant aspects of federal RICO requirements, the need still exists to be aware of any changes to those requirements. Recent revisions to federal guidelines warrant added compliance efforts on the part of the City. Additionally, oversight of RICO checks can be improved. Police Department management has outlined what appear to be adequate procedures for monitoring RICO checks. However, documentary evidence that the procedures are implemented is not being maintained. We believe that improvements to both these areas can be achieved.

Revised Requirements Need Attention

The U.S Department of Justice revised its guidelines on participation in the federal RICO program. "A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies" (Guide) has a revision date of March 1994. Included in the Guide are requirements and examples for law enforcement agencies participating in the federal RICO program. The Guide is useful in obtaining an understanding of U.S. Department of Justice expectations. The Guide is also necessary for assuring compliance with federal RICO requirements particularly because it calls for civil and criminal sanctions for law enforcement agencies which do not comply.

Overall, we found that the City complies with the Guide's significant requirements. However, one revision over the previous version of the Guide is the requirement for an annual independent financial audit of the RICO account for "agencies that receive federal shared cash, proceeds, or tangible property valued at over \$100,000 in a single year, or that maintain a federal forfeiture fund account balance of over \$100,000." Related audit reports are to be sent to the

Executive Office for Asset Forfeiture within the Department of Justice. Our Police Department meets the dollar requirements for this provision at least since the date of the revised requirement. However, to date an audit report has not been provided as required.

Our preliminary inquiries to the Department of Justice indicate that an audit by our office may satisfy the Guide's audit requirements. We will work with the Administrator to determine what further action is needed to satisfy the audit requirement for this year. Arrangements to comply with the audit requirement in the coming years should be pursued by the Administrator.

The Guide also indicates that law enforcement agencies should maintain a log and copies of all "DAG-71s" (Application for Transfer of Federally Forfeited Property) forwarded to the Department of Justice. The DAG-71s are requests to share in the distribution of RICO assets related to a specific case. Maintenance of such information is for control and tracking purposes. The Administrator said that he tries to maintain copies of each DAG-71 with which the Police Department is involved. However, he said because other law enforcement agencies sometimes originate the DAG-71, we may not get a copy of it even though we are named in the form as requesting a share. The Administrator said that he becomes aware of the situation only because he receives a RICO check related to the DAG-71.

We interpret the Guide's intent to be for law enforcement agencies to retain copies of all DAG-71s which they originate. It would otherwise be difficult, if not impossible, to ensure that copies of all DAG-71s are obtained. A separate law enforcement agency could originate a DAG-71, include the Scottsdale Police Department as a participant but not send a copy to inform the Administrator. The Administrator would not be aware of the situation unless a check is ultimately received, and at that point it could still be very difficult to trace the originating source.

To comply with the Guide, the Administrator should pursue options to ensure that he receives all copies of DAG-71s which either originate within the Scottsdale Police Department or from multi-agency task forces to which the Department has assigned personnel.

**Oversight Of Checks
Can Be Improved**

The Police Department's share of federally forfeited assets is typically received at the City in the form of a check. The RICO checks are routed to the Commander of the Special Operations Division (SOD) from the Chief's office. The SOD Commander makes a copy of the check and gives the original to the Administrator for deposit into the required account. He indicated that he holds the check copy so that he can verify that the deposit is made into the appropriate account. This is done when he matches the check copy to the related deposit receipt provided by the Administrator. The Administrator deposits the check with the City cashier and then requests a check payable to the Maricopa County Attorney Forfeiture Account. That check is then-hand delivered by the Administrator.

The stated procedures, if followed, appear adequate to verify that RICO checks are properly deposited. However, our review of the SOD Commander's records indicated that documentation, evidencing the deposit verification, was not always retained. The files did not appear to be complete and, as a result, we could not verify the extent to which the deposit verification was performed. We found copies of checks for which there were no deposit receipts. We traced these checks to the county accounts to which they should have been deposited and found that appropriate deposits were made. We were, however, unable to verify that all checks received within the Police Department were appropriately deposited because a complete record of all checks received was not maintained. Nor was a record kept of the date the checks were received. As such, we could not determine whether checks were deposited in compliance with the next business day requirement suggested in federal guidelines.

In order for this control to be as effective as possible, we believe that the match of the check copy to its related deposit receipt should be documented in a manner that evidences final approval of the transaction. A log or copy of each check and amount should be kept along with the date the check was received. Such documentation is necessary to assure that deposits are appropriately made on a timely basis and to avoid any confusion as to whether proper verifications have been made at any given time.

IMPREST CONTROL HAS IMPROVED, BUT MORE CAN BE DONE

The two imprest accounts appear to be properly used and in general, properly controlled, but improvements still can be made to the control environment. The SIS Commander maintains both computerized and hardcopy registers of the two imprest accounts and is responsible for imprest oversight. He writes checks on the accounts to provide expense monies to SIS unit members, replenish the Narcotics Unit's Buy Fund and pay for SIS facility and maintenance costs and other incidental administrative costs. He is also responsible for reconciling related bank statements to ensure that account balances and activity are correct. The SIS Commander reports to the SOD Commander and, as a result, forwards imprest account activity reports to him for his review. Although both accounts appeared to be used for appropriate purposes, related bank statement reconciliations were not formally documented. In addition, to have proper oversight, periodic reconciliations should be performed by someone independent of the expenditure process. We also found that monthly expense vouchers detailing the use of imprest monies were regularly generated, but sometimes lacked signatures evidencing supervisory review.

The Narcotics Unit's Buy Fund was properly used and the necessary documentary evidence supporting the use of the monies was retained. However, applicable control techniques and procedures were not formally documented. Additionally, physical safeguarding of Buy Fund cash can be improved with the use of a safe with a changeable combination and the documentation of unannounced cash counts by a party not involved with replenishment of the fund.

Administrative Imprest Account Properly Used

The facility and maintenance costs of SIS operations are paid out of the administrative imprest account. The SIS Commander writes checks on the administrative account to meet expenses as they arise. Throughout the year, relatively few checks are written against this account. Our review of account activity from June 30, 1994 to January 20, 1995 indicated that the account was properly administered during that period.

We found evidence that the SIS Commander reviewed each individual transaction in his checkbook ledger, but related bank statement reconciliations were not documented. Because of the relatively few transactions occurring in this account, the checkbook review was adequate. However, we believe that formally evidencing monthly bank reconciliations is a control technique necessary to provide a trail to future imprest account custodians rotated into the position.

In addition, to ensure proper oversight, the bank statements should be periodically reconciled by someone in management who is independent of daily imprest responsibilities.

**Bank Statements And Expense
Vouchers Require
More Stringent Review**

SEA is used to provide cash advances to SIS unit personnel at the beginning of each month for use in their investigative fieldwork. Unit supervisors collect any unused expense monies, along with expense vouchers detailing the use of expended funds from each unit member at the end of each month. The supervisor reviews the expense vouchers for appropriateness and signs them if he approves. He then summarizes the expense vouchers of each unit member into a single expense voucher for the unit. This summary voucher along with the supporting vouchers is forwarded to the SIS Commander for his review and approving signature. The unit supervisor is then responsible for depositing all collected cash into the SEA bank account.

For the nine-month period beginning with June, 1994 and ending with February, 1995, we reviewed each unit's expense voucher summaries. We found that for the nine summary vouchers submitted by the Special Assignments Unit, the SIS Commander did not provide an approving signature for four of the months. The signature is required to provide evidence that the summaries were reviewed. Lack of a signature leaves uncertainty as to whether expenditures are being properly monitored.

We also found that the Special Assignments Unit supervisor held the collected cash for more than six days on average before depositing the monies. The average amount in his possession was \$575. On three occasions, the funds were held for ten days or more. Holding imprest cash for more time than necessary increases the possibility of commingling it with personal funds. Although it may not be practical, because of surveillance assignments, to go to the bank within one working day of collecting the cash, night deposits can be used to accomplish the task.

The SIS Commander reconciles the SEA bank statements to verify the accuracy of posted activity and balances. He also provides quarterly SEA cash flow reports to the SOD Commander for his review. These procedures serve valid control purposes. However, the bank reconciliation results should be formally documented. In addition, to exercise proper oversight over the SEA, the SOD

Commander should periodically perform his own reconciliation of the bank statements. Such a reconciliation is needed as assurance that someone independent of the SEA activity obtains direct insight into account activity and the accuracy of account balances.

**The Buy Fund Is Adequately
Controlled, But Procedures
Need To Be Documented**

The Narcotics Unit's Buy Fund money is provided from SEA. Buy Fund cash is maintained in a safe within the office of the Narcotics Unit's supervising sergeant. Readily available money is needed to provide unit personnel with cash on an as-needed basis to purchase information from criminal informants or to make undercover drug buys for the purpose of furthering investigations.

The SIS Commander writes a check on SEA to replenish the Buy Fund on an as-needed basis. The Narcotics sergeant said he usually requests replenishment when cash on hand is not sufficient for upcoming investigations. The sergeant maintains a log of the uses of Buy Fund monies provided to detectives. The log is a running balance of cash in the safe and activity that has taken place. The log contains the date, amount, officer involved and supervisor signature for each entry. On a monthly basis, the sergeant summarizes Buy Fund activity on an expense report and submits it to the SIS Commander for his signature.

Our analysis of drug buy activity indicated that all documentation and approval signatures necessary to verify the transactions were present. We traced the transactions to the Police Property Room and found physical evidence matching the description of the transaction contained in Buy Fund records. We believe that controls are adequate to safeguard monies provided for undercover drug buys, but the procedural requirements are not documented in the SIS Operations Orders manual. To effectively communicate Buy Fund procedures and assure that consistency is maintained in the future, we feel that the applicable control techniques and procedures should be documented.

Strict controls are documented within SIS Operations Orders regarding informant payment procedures and the level of documentation required for verification of the transaction. Our review of a sample of informant payments indicated compliance with procedures designed to evidence the appropriateness of the payments. Required receipts, witness signatures and supervisory approvals were all properly documented.

**Cash Safeguarding
Can Be Improved**

The SIS Commander and the Narcotics sergeant are the only persons with the Buy Fund safe combination. According to the SIS Commander, the safe does not have a changeable combination but access to the area is limited with a keypad entry door. Because the combination has not been changed and different personnel have rotated in and out of the area, we believe a need exists to have a safe with a changeable combination. This would enable a periodic change of the combination in order to ensure that monies are kept secure.

The SIS Commander said that he performs random unannounced Buy Fund cash counts throughout the year. The Narcotics sergeant verified that cash counts had occurred periodically. However, we found no documentation evidencing the results of the counts. Prior to raising the issue, we performed a cash count of the Buy Fund and found that the money in the safe agreed with Buy Fund records. Unannounced cash counts are an effective control for safeguarding cash. However, documenting the date and results of each cash count would provide added control in the event that discrepancies arise. Additionally, to ensure that someone independent of Buy Fund activity obtains direct insight into account transactions and the accuracy of account balances, the SOD Commander should perform periodic unannounced Buy Fund cash counts which he documents. He should also trace SEA replenishment transactions to the Buy Fund to verify that the monies were used to increase the balance.

RECOMMENDATIONS

1. The SOD Commander should:

- a. track all RICO checks that are delivered to the Police Department, along with the date received, and match them to documentation necessary to verify that they are appropriately deposited on a timely basis. Documentation of the verifications should be retained to evidence compliance with federal guidelines,
- b. periodically (e.g., quarterly, bi-annually) reconcile imprest bank statements to ensure that he obtains independent insight into account activity and balances,
- c. periodically (e.g., quarterly, bi-annually) perform unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money, to ensure that he obtains independent insight into account activity and balances.

2. The Police Budget Analyst should take steps to formally document her verification of the proper recording of RICO expenditures. The documentation should evidence whether or not any exceptions were noted and corrective actions taken, if needed.
3. The RICO Administrator should:
 - a. contact the Department of Justice to determine action necessary to comply with the audit requirement in the federal guidelines,
 - b. obtain the most recent version of the federal guidelines to identify any new requirements. He should then take steps to achieve compliance with the guidelines,
 - c. ensure that he receives and retains all DAG-71's originating from the Police Department or from task forces on which the Police Department has assigned personnel.
4. The SIS Commander should:
 - a. formally document his reconciliations of imprest checking accounts by initialing and dating the related bank statements,
 - b. consistently document his review of Unit expense vouchers to evidence his review and indicate his approval,
 - c. require and verify that unit supervisors deposit cash immediately upon collection from unit members (within one day, or as soon as possible thereafter),
 - d. consult with the Narcotics Unit supervisor and take steps to formally document Buy Fund procedures in the SIS Operations Orders manual. Documented procedures should address control techniques, the frequency with which they are to be performed, and document trails that are to be generated,
 - e. acquire a Buy Fund safe on which the combination can be periodically changed and, upon acquisition, implement a policy of changing the safe combination on a regular basis (e.g., annually).

ABBREVIATED RESPONSES

- 1a. Agree. An improved form has been implemented which tracks deposit steps. Documentation will be retained.
- 1b. Agree. The Commander of the Investigative Services Bureau will reconcile the accounts on a bi-annual basis.
- 1c. Agree. The Commander of the Investigative Services Bureau will conduct and document bi-annual counting of the Buy Fund.
2. Agree. The Analyst has developed a tracking form which she will retain.
- 3a. & 3b.
Agree. The RICO Administrator will stay abreast of guideline changes, and will arrange for the audit as required.
- 3c. Agree. The RICO Administrator now receives a copy of all DAG 71s.
- 4a. Agree. The RICO Administrator now initials bank statements.
- 4b. Agree. *The SIS Commander shall initial monthly expense vouchers on a more diligent basis.*
- 4c. Agree. The SIS Commander will monitor deposits to insure that they take place timely, or will document the reason for delay.
- 4d. Agree. The SIS Commander and the Narcotics Unit supervisor will outline procedures and draft orders to document Buy Fund procedures.
- 4e. Agree. *The SIS Commander shall cause a new safe to be purchased, and a policy will be developed about changing the combination periodically.*

APPENDIX A

STATUS OF MANAGEMENT ACTIONS TO STRENGTHEN RICO AND IMPREST ACCOUNT OVERSIGHT AND CONTROL

No.	1991 RECOMMENDATION	ISSUE STATUS		COMMENTS
		CLOSED	OPEN	
1	The Administrator, in consultation with the State Attorney General, should arrange to have State RICO monies directly transferred to the Department immediately upon court awarded forfeiture. To comply with this arrangement, the Administrator should develop a procedure for providing quarterly reports on the receipt and expenditure of state RICO monies.	X		
2	The Administrator should develop a summary sheet of active RICO forfeiture cases for use in verifying that all appropriate monies are received. Separate summary sheets should be developed for each of the RICO classifications (federal, state, county, and city) for easy verification. The summary sheets could serve as a tickler mechanism to obtain status updates from responsible agencies on aging forfeiture cases.	X		
3	The Administrator should develop and maintain documentation of all situations where the Department has an interest in a forfeiture case.		X	See current Recommendation 3c.
4	The Police Chief should establish the administrator as a central review point for all purchase requests drawn on RICO funds. The review should include verification that the requested purchase is legally allowable. However, to properly segregate duties, the Administrator should not generate purchase requests drawn on RICO funds.	X		
5	The Accounting Manager, in consultation with the Administrator, should establish separate cost centers for each RICO classification (federal, state, county, and city) that track expenditures.	X		
6	The CIB Commander should develop procedures that adequately safeguard RICO related assets. The procedures should:			
6a	a. segregate responsibility for depositing RICO checks from the responsibility of verifying the checks are properly deposited		X	See current Recommendation 1a.
6b	b. require that the check transmittal recipient perform a monthly review of RICO account balances to verify that the checks were deposited to the appropriate accounts, and	X		
6c	c. require the Administrator to comply with AR 205 and deposit RICO funds as received daily with the Cashier in Financial Services.		X	See current Recommendation 1a.
7	The Administrator, in consultation with the Accounting Manager, should develop procedures to use a formal cash transmittal document when depositing RICO funds. This should include retaining a copy of the transmittal and verifying that the funds were credited to the appropriate accounts.	X		

No.	1991 RECOMMENDATION	ISSUE STATUS		COMMENTS
		CLOSED	OPEN	
8	The CIB Commander, in consultation with the Custodian, should take steps to develop and update the SED procedures manual to reflect controls that will adequately safeguard assets. The procedural issues addressed should provide for:			
8a	a. separation of imprest account check writing from bank reconciliation duties,		X	See current Recommendation 1b.
8b	b. review of monthly expense vouchers requiring the advance to be reconciled to the sum of expenses reported plus end-of-month monies that are deposited.	X		
8c	c. Custodian signature on expense vouchers as evidence of approval,		X	See current Recommendation 4b.
8d	d. uniform procedures for completing monthly expense vouchers,			
8e	e. a reasonable retention period for imprest receipts and other supporting documents (e.g., 90 days),	X		
8f	f. changing the Buy Fund safe combination on a regular basis (e.g., annually),		X	See current Recommendation 4c.
8g	g. periodic, unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money (e.g., annually),		X	See current Recommendation 1c.
8h	h. Custodian verification that Unit supervisors comply with AR 205 requiring daily deposits of cash as received, and		X	See current Recommendation 4c.
8i	i. a mechanism to regularly update the SED policies and procedures manual.		X	See current Recommendation 4d.
9	The Custodian, in consultation with the CIB Commander, should combine the two imprest checking accounts	X		

APPENDIX B

Management Responses

September 20, 1995

TO: OFFICE OF THE CITY AUDITOR
FROM: DEPUTY CHIEF JAMES KERSHNER, INVESTIGATIVE SERVICES
SUBJECT: MANAGEMENT RESPONSES TO AUDIT RECOMMENDATIONS

The draft copy of the Scottsdale Police Department Imprest Accounts and RICO Financial Management Practices has been reviewed. The attached Management Responses to Recommendations list our response to each recommendation, as well as actions planned or taken reference each recommendation.



DEPUTY CHIEF JAMES KERSHNER

September 20, 1995

MANAGEMENT RESPONSES TO 1995 AUDIT RECOMMENDATIONS

1a. The Commander of the Investigative Services Bureau shall track all RICO checks that are delivered to the Police Department, to include the date received. He shall match them to documentation necessary to verify that they are appropriately deposited on a timely basis. Documentation of the verifications shall be retained to evidence compliance with federal guidelines.

Management Agrees - Actions Taken. An improved tracking/deposit form has been implemented. The use of the new form will track deposit steps to include the names of all persons involved in the handling of the check. All documentation regarding the check will be retained by the Commander of the Investigative Services Bureau.

1b. The Commander of the Investigative Services Bureau shall periodically reconcile imprest bank statements to insure that he obtains independent insight into account activity and balances.

Management Agrees - Actions Planned. The Commander of the Investigative Services Bureau will reconcile the imprest accounts on a bi-annual basis to insure correct balances.

1c. The Commander of the Investigative Services Bureau shall periodically perform unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money, to insure that he obtains independent insight into account activity and balances.

Management Agrees - Actions Planned. Management recognizes the need to insure sums of cash are accounted for at all times; therefore, the Commander of the Investigative Services Bureau shall conduct bi-annual counting of the Buy Fund in the presence of both the Special Investigations Lieutenant and Narcotics Sergeant. The countings will be documented and the tracking paper will then become part of the records of the Buy Fund.

2. The Police Budget Analyst shall take steps to formally document verification of the proper recording of RICO expenditures. The documentation shall evidence whether any exceptions were noted and corrective actions taken, if needed.

Management Agrees - Actions Planned/Implemented. The Police Budget Analyst has developed a tracking form designed to formally document verification of expenses. The form will be retained by the Police Budget Analyst as a permanent record.

3a. The RICO Administrator shall contact the Department of Justice to determine action necessary to comply with the audit requirement in the federal guidelines.

3b. The RICO Administrator shall contact the Department of Justice and obtain the most recent version of the federal guidelines to identify any new requirements. He shall then take steps to achieve compliance with the guidelines.

Management Agrees - Actions Planned. Management recognizes that the statutes and guidelines concerning RICO forfeitures are constantly changing. The RICO Administrator has already obtained the latest Federal Guideline booklet. The RICO Administrator is reviewing this booklet to insure that all policies implemented by the Scottsdale Police Department are in accordance with the Federal Guidelines. Additionally, the RICO Administrator will make the necessary contacts and arrange for the Annual Audit of the RICO funds to take place in compliance with the latest Federal Guidelines.

3c. The RICO Administrator shall ensure that he receives and retains all DAG 71's originating from the Scottsdale Police Department or from the task forces where the Scottsdale Police Department has assigned personnel.

Management Agrees - Actions Planned/Implemented. The RICO Administrator is now receiving a copy of all DAG 71's at the time they are signed by the Special Investigations Lieutenant. A tracking program will be developed to computerize tracking of new cases from this point forward on all Federal seizures.

4a. The SIS Commander shall formally document his reconciliation of imprest checking accounts by initialing and dating the related bank statements.

Management Agrees - Actions Planned/Implemented. The SIS Commander has immediately began initialing bank statements received with his initials and the date the statement was reconciled. The statement is then filed.

4b. The SIS Commander shall consistently document the review of Unit expense vouchers to evidence the review and indicate the approval.

Management Agrees - Actions Planned. The SIS Commander shall initial monthly expense vouchers on a more diligent basis.

4c. The SIS Commander shall require and verify that unit supervisors deposit cash immediately upon collection from unit members (within one day, or as soon as possible thereafter).

Management Agrees - Actions Planned. Current procedures require unit supervisors deposit cash upon collection. The SIS Commander will monitor these transactions to insure that they take place on a timely basis. On those occasions where there appears to be a delay the SIS Commander will document the reason for the delay. The document will then be filed with the bank statements.

4d. The SIS Commander shall consult with the Narcotics Unit supervisor and take steps to formally document Buy Fund procedures in the SIS Operations Orders manual. Documented procedures shall address control techniques, the frequency with which they are to be performed, and document trails that are to be generated.

Management Agrees -- Actions Planned. The SIS Commander and the Narcotics Unit supervisor will outline procedures and draft orders to document Buy Fund Procedures.

4e. The SIS Commander shall acquire a Buy Fund safe on which the combination can be periodically changed, and implement a policy whereby the safe combination is changed on a regular basis.

Management Agrees -- Actions Planned. Management agrees that the current Buy Fund safe is obsolete. The SIS Commander shall cause a new safe to be purchased. A policy will then be developed to document when the combination will be changed.

APPENDIX C

Objectives, Scope and Method

The purpose of this audit was to determine: (1) the status of management actions on audit recommendations in the report, Scottsdale Police Department Imprest Accounts And Rico Program Compliance And Financial Management Practices (Report No. 9105, August 1991), and (2) the existence of other areas of concern which might impact the operations of the segments examined. The audit's scope focused on the issues of concern and recommendations made in the prior audit. This included an assessment of the SIS system of managing, tracking, and controlling RICO-related activity, and an evaluation of the adequacy and effectiveness of controls over the management and monitoring of imprest funds, including a review of two imprest checking accounts used by SIS to carry out operational and undercover expenses. This audit did not include a review of Department procedures and practices used to carry out its enforcement responsibilities.

During this audit we reviewed current state and federal laws, as they relate to RICO activity, to determine whether any changes impacted the current audit. We assessed relevant policies and procedures to determine City compliance with statutory restrictions and policies. Interviews were conducted with Police Department and Accounting Division personnel in the Financial Services Department involved with either administering, managing, monitoring, tracking, posting, or reporting RICO or imprest account activity. The County Attorney's Anti-Racketeering Revolving Fund administrator was also interviewed to obtain interpretations of RICO statutes and restrictions and to gain an overview of the County Attorney's involvement in handling the City's RICO monies. Relevant documents were reviewed as well as policies, procedures, and practices used in administering the RICO program and imprest system. Tests were performed on documents and samples of transactions to verify their accuracy and propriety.

We obtained a listing from Accounting of all 1995 fiscal year RICO expenditure transactions up to June 23, 1995, that were charged against the State/Local RICO Budget Center. We segregated the transactions by account number and compared the totals for each account number and the total posted to the State/Local Budget Center to the 1995 fiscal year State/Local RICO Approved Budget Summary. Our objective was to ensure that budgetary internal controls for the State/Local RICO funds were operating as stated. To accomplish this objective, we performed analyses to determine if transactions

were within budgeted amounts, proper approval was obtained for non-budgeted amounts, and related expenditures were appropriate to be State/Local RICO funded. We reviewed selected invoices from accounts payable microfiche to identify expenditure descriptions and to verify non-budgeted approval forms.

The above-mentioned analyses was also performed on all 1995 fiscal year expenditure transactions charged against the Federal RICO Budget Center up to June 23, 1995. Comparisons were made of the totals charged against the Federal Budget Center to the 1995 fiscal year Federal RICO Approved Budget Summary.

To determine whether or not internal controls for the imprest funds had been developed or strengthened, we reviewed documents, interviewed SIS staff, and performed tests. We checked for an updated SIS procedures manual and reviewed for compliance with established guidelines.

For the nine-month period of June 1994 to February 1995, we selected and reviewed all Special Assignments Unit, Narcotics Unit, and two Intelligence Detective's monthly expense vouchers and SEA bank statements to verify that advance money was properly accounted for. We compared the monthly expense vouchers to check information, verified accuracy in mathematical calculations to account for all cash that was disbursed and returned, verified proper signature authority, and reviewed for accuracy and timeliness of redeposits of unused advance funds through examination of deposit slips, bank statements and summary voucher reports.

For the period of July 5, 1994 to February 1, 1995, we selected and traced all disbursements from the Special Enforcement checking account to their use as evidenced by SIS records. We recorded check information obtained from the monthly bank statements and canceled checks, and traced them to the cash advance recipient or to the evidence of its ultimate use. We verified the accuracy of related amounts and reconciled monthly balances.

For the period of June 29, 1994 to January 19, 1995, we selected and traced all disbursements from the administrative checking account to their use as evidenced by SIS records. We recorded check information obtained from the monthly bank statements and canceled checks, and verified the operational expenses such as rent, supplies or utilities. We reviewed for appropriate receipts or contracts,

verified the accuracy of amounts, and reconciled bank statements to the checkbook ledger.

For the period of July 1, 1994 to January 17, 1995, we selected all criminal informant payments from the monthly expenditure logs for purposes of tracing to documentation and to verify compliance with applicable procedures. We verified the presence of related receipts and reviewed them for appropriate authorizing signatures.

For the period of July 7, 1994 to February 24, 1995, we verified receipts for all drug buy transactions using Buy Fund money. We compared the amount of the buy, description and case identification number as recorded on the expenditure report to the listing on the receipt. From these transactions we selected all transactions that were \$150 or greater. We traced them to records evidencing the purchased drugs were deposited with the property room.

We performed an unannounced cash count of the Buy Fund for the purpose of comparing the actual Buy Fund cash on hand to the recorded Buy Fund balance. The Buy Fund money was located in the Narcotics Unit Sergeant's office. The cash count was performed in the presence of the supervising Sergeant.

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Preliminary Survey Covering City of Scottsdale Automated Systems, Report No. 8904, November 1989

Perquisite Management Practices, Report No. 8801, April 1989

Police/Fire

Scottsdale Police Department Imprest and RICO Financial and Related Operational Management Practices, Report No. 9105, August 1991

Attestation Audit on Inventory Moved During Police Property and Evidence Room Relocation in February 1989, Report No. 8902, April 1989

RICO Imprest Account Oversight and Control Progress, Report No. 9105.1, October, 1995

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